# Utah's Economy - 2004

Utah's economy gathered momentum in 2004 as it emerged out of the recession that enveloped the state in 2001 through mid-year 2003. The low point of that recession was fewer jobs recorded in 2002 than were measured in 2001. That was the first time in 38 years that Utah had experienced an employment contraction. Although 2003 was not a year of job loss, it was a lethargic year at a time when the economy was weary of setbacks and needed a revival. But only a minimal number of lost jobs were gained back in 2003. The rebound did begin in latter half 2003, and the momentum built throughout 2004.

Employment grew by 2.8 percent this year, a significant improvement over the performance of the previous three years, and the highest employment growth rate in six years. Even this is an underachievement in terms of what Utah's economy has produced in the past.

Since 1960, Utah's economy has averaged 3.3 percent employment growth per year. That is a commendable rate of growth. It puts us sixth among all states over that period, trailing only Nevada, Arizona, Alaska, Florida, and Colorado.

The downside is that Utah has not achieved that level of employment growth since 1997.

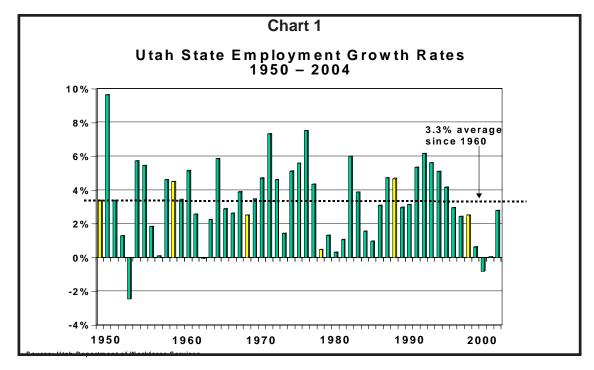
2004 marks the seventh year in a row where the Utah economy did not grow by 3.3 percent or better. That is the longest extended period of time in the last 50 years where the Utah economy has performed below its potential.

All of this must be brought into context. Although the Utah economy only grew by 2.8 percent, that is the fifth best employment growth rate by state in the nation in 2004. The national economic picture for 2004 is still very weak. In the context of an overall weak United

States economic environment, Utah's economic performance is commendable, and lays the groundwork from which growth should accelerate as the United States economy picks up steam and grows.

## **Regaining the Loss**

The downturn of the early 2000s recession began in early 2001. January 2001 was the employment peak from which the state's employment numbers began to receed. From that peak to the downturn depths in late 2002,



the Utah economy had lost around 15,000 jobs. Moving forward to January of 2004, that job count had been recaptured. It took two years for the Utah economy to regain its previous employment peak. The employment gains continued gathering momentum throughout 2004, and Utah has been propelled to its high ranking in relation to the country's other states. Why is Utah seeing a faster rebound out of recession than most states?

The probable answer is rooted in population growth. Utah has a continuously-growing population. The state's natural increase (births minus deaths) always ensures that Utah will have population growth. Net migration either enhances or dampens this growth, depending upon the migration flow. Utah has had strong net in-migration since the early 1990s. This in-migration has continued unabated, even in the face of an economic downturn.

While the economy was shedding jobs, the civilian labor force continued to expand. This created an imbalance that eventually will correct itself. When the overall U.S. economic environment improved, Utah was poised for the gains it is now experiencing because the economy had to catch up with the population gains. Population in and of itself is an economic catalyst, as more people mean more demand for goods and services.

## **Employment by Industry**

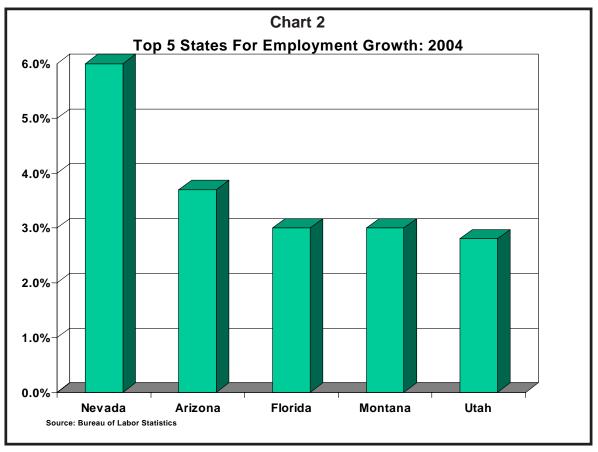
Mining Mining has been a part of Utah's heritage since the mid-1800s. First silver, then copper mining dominated Utah's history. Sil-

ver mining has virtually disappeared, and copper is waning. Coal, oil, and natural gas are now Utah's mining foundation.

Even so, mining is not a major employer in Utah. Statewide, mining employs roughly 7,400 workers, or less than 1 percent of all Utah employment. But mining is an important segment in several Utah county economies, including Uintah, Emery, Duchesne, and Carbon counties.

Mining employment did expand by 6.2 percent this year. Most of this expansion was centered around the oil and gas industry.

<u>Construction</u> Construction experienced the fastest employment growth of any industry with a 7.4 percent increase. This represents the addition of just over 5,000 new jobs, and raises total construction employment to 72,600. Construction makes up 6.6 percent of all Utah employment.



Construction's strong employment growth offers a picture into the rapid turnaround and growth of Utah's economy. Construction acts as a responder to the economy, either through building to match current demand, or building to satisfy the anticipated future demand investors see for Utah. The current construction growth is responding to both.

Manufacturing Manufacturing saw its best performance in Utah in seven years. This industry not only finally stopped its long employment slide, it added jobs this year. This industry grew by 2.2 percent, or the addition of nearly 2,500 new jobs. Manufacturing constitutes 10.4 percent of Utah employment. This is down from just over 13 percent seven years ago.

Employment gains are equally shared between both durable and nondurable goods manufacturing. Durable goods are those whose useful life is over three years, and the manufacture of such goods generally results in jobs that pay high wages. Gains in durable goods were recorded in fabricated metal products, transportation equipment, and furniture products.

On the nondurable side, chemicals, plastics and rubbers, and printing registered the largest employment gains.

<u>Trade, Transportation, Utilities</u> This is the largest industrial sector in Utah, employing around 219,000 workers. It provides nearly

20 percent of all employment. This sector rebounded from job loss last year by adding over 6,200 new jobs this year. That marks this sector with the second most jobs added, behind only professional and business services.

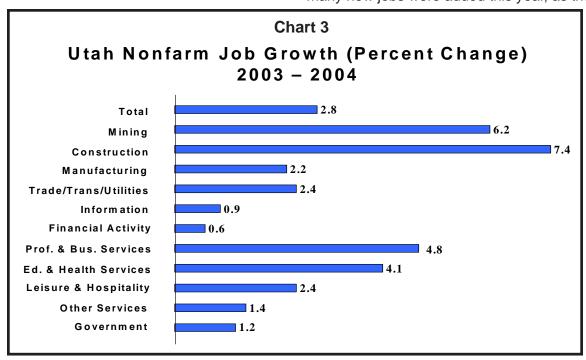
Trade is the largest sub-component within this sector. It accounts for around 174,000 jobs, or nearly 80 percent of all jobs in this sector. Trade is further divided into wholesale and retail components, of which retail is by far the largest.

The transportation side of this equation employs around 41,000 workers. That is only about 1,000 more workers than last year, but

considering the weakness of the airline industry this year, any gain is good news.

Information Information is one of the smaller employment sectors in Utah. With roughly 30,300 workers, it makes up only 2.7 percent of all Utah employment. This sector did manage to add new jobs this year, although just under 300 is not a dynamic situation. But this sector saw job losses over the previous two years, so again, even small job gains are a positive.

<u>Financial Activity</u> Financial activities employ around 7 percent of all Utah workers, and much of this is centered in Salt Lake County, the banking and credit center of the state. Not many new jobs were added this year, as the



addition of around 350 new jobs is a growth rate of only 0.6 percent, the smallest growth rate for any industrial sector.

#### **Professional and Business Services**

Those businesses whose major input is human capital are grouped together within this sector. This is generally a high-wage industry group. Activities such as software development, biotechnology, research and development, engineering, and accounting and legal services are found here. There are also significant employment areas in this sector, such as call centers and employment services, which are not known as high-wage areas.

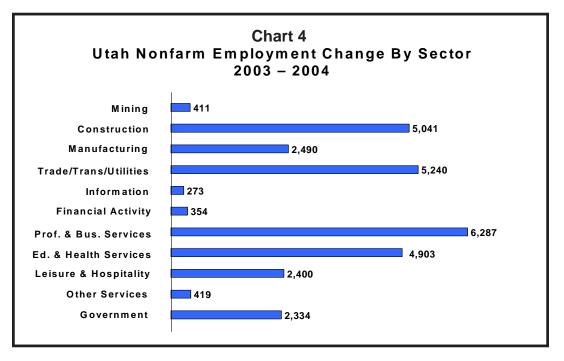
This was the sector to add the most new jobs over the year, with over 6,000 to its credit. Most of these gains occurred in employment services, which provide temporary help or placement activities for businesses. Strong growth in this sector is expected during the initial phase of a business recovery. Employers are ramping up production in response to an improved business climate, but they are also cautious in how they hire in case the business upswing proves to be short-lived or a false start. As the business cycle continues to improve and show itself to be long-lived, then employers will shift more to direct hiring. But before that happens, we observe high levels of employment funneling through placement agencies.

The professional and technical jobs found in this sector declined a bit during the recent recession. The addition of 1,000 new jobs this year does not negate the previous year's losses, but it does signal the rebound that must occur to again expand the state's base of these high-paying jobs.

Professional and business make up nearly 13 percent of Utah's employment base.

Education and Health Services This sector continues to expand, continuing a multiyear expansion that is signaling no end in sight. Another 4,900 new jobs were added over the past year, most in health care. This is a resilient sector and was the bedrock industrial sector that added jobs during the recession while many other sectors shed jobs. Without this sector's strength, the recession would have been much worse. This sector accounts for over 11 percent of all Utah jobs.

Leisure and Hospitality This industry recorded a net job gain of 2,400 positions. It largely has two components ¾ arts, entertainment, and recreation; and lodging and food services. The biggest component is lodging and food services, employing about 84 percent of the roughly 102,000 workers recorded in leisure and hospitality. It also added most of the new jobs over the past year. This sector accounts for over 9 percent of Utah employment.



Other Services This is kind of a catch-all sector on the service-producing side of the ledger. It has a potpourri of businesses within its classification, such as repair services, personal services, and membership organizations. It's not a particularly large sector, employing around 33,000 workers. It did experience a net job increase of over 400 jobs for the year.

**Government** Government is a large employer in Utah. It consists of three components — federal, state, and local. Together, they make up 18 percent of Utah's employment base, the second highest among industries.

Local government is the largest component, and it is dominated by public school employment. Local governments employ more than the state and federal governments combined. Overall government employment grew by 2,300 positions, with 1,800 of this within local government.

## Wage Growth Remains Slow

Several years of slow wage growth finally reversed this year. In 2004, Utah's average annual nonagricultural pay was \$31,686. This is a respectable 3.5-percent increase over last year. That's much better than 2003's 1.7 percent gain. An improving economy is the obvious factor for this growth. This wage growth is commendable. Even though the economy is growing, there is still a slack nature in the labor force resulting from several years of recession. Not enough time has

passed to tighten up this labor market, so these strong wage gains, even with a soft labor market, are an encouraging sign, especially if the economy continues to grow.

Inflation for 2004, as measured by the U.S. Consumer Price Index (CPI-U), was 2.7 percent, so this year's wage gains mean that workers experienced an increase in purchasing power.

#### Conclusion

The strong recession of the early 2000s is finally being shaken off. Utah has emerged as one of the strongest employment growth states in the nation, although there is still room for improvement as measured from an

historical context. But the momentum that has built throughout this year is setting the stage for an even better 2005. When emerging from a recession, gains are often measured in small steps.

Mark Knold Senior Economist

